vencap

Annual Report 1994

risk - a delicate balance

Corporate profile

Vencap is a private-sector venture capital fund making equity capital investments in new and existing business enterprises. We are in the business of investing wisely and managing well. We add value to the companies in which we invest to enable their success and a profitable route to liquidity for Vencap.

Vencap has committed $254.0 million of equity capital to 73 companies in the western regions of Canada and the United States during the past decade.

contents

Annual General Meeting

10:00 a.m., Thursday,
August 4, 1994
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

This document is printed on 50% recycled paper which contains a minimum of 25% post consumer content.

We view risk very seriously.

We believe in managing risk,

not accepting it.

And even though the process of

venture capital is predicated

on the concept of risk investing –

our approach is toward

strategic asset allocation and

strong portfolio management.

Our attention is focused,

our horizons broad.

We manage risk well,

and wisely.

R.A. (Sandy) Slator
President
Chief Executive Officer

Risk – a delicate balance

We employ a strategic investment process. We apply fundamental business disciplines to opportunities with outstanding management and market potential. We maximize these opportunities with deal structure and size, ability to add value, and a plan to exit profitably. And we are driven by a disciplined, professional approach.

message to shareholders

The directions being pursued by Vencap are predicated on our strategic approach to finding and developing new investment opportunities that have the potential for significant return and that build upon the infrastructure Vencap has established. That infrastructure is our proven ability to manage the delicate balance of risk, and to have built a venture portfolio which reflects that balanced approach. The risk/reward equation inherent in every single investment decision we make is not viewed in isolation but considered relative to the over-all risk/reward profile represented by our entire venture portfolio.

Across North America and, throughout the world, we have all experienced a past decade of tumultuous change and uncertainty. The same could be said of the last year; it will probably be said 10 years hence. Attitude, however, is all important. For those brave of spirit and determination, the past decade has been one of challenge and opportunity. Ability, the skill to succeed, is the differentiating factor.

At Vencap, we are tired of hearing that Canada – indeed, North America – is on its way to "third-world status." At Vencap, we only have to look at the breadth of companies in our venture portfolio – the incredible cross-section of industry specialization they represent, hurdles they have overcome, opportunities to which they have access – to confirm our fundamental belief that success comes to those who choose and strive to be agents of growth. The agents of change, and growth, in any free-enterprise economy have always been the builders of businesses.

Vencap is a builder of businesses.

In times of uncertainty, we see opportunity or look for ways to create it. And while our entire business is based on the concept of risk investing, our philosophy is not one of risk taking. Our fundamental approach is to strategically, and accurately, select the businesses we can build and grow into enterprises from which we can exit profitably for the benefit of our shareholders.

That objective has defined our operations from the outset – to create exceptional shareholder value by aggressively seeking out, investing in, adding value to, and profiting from business opportunities of outstanding growth potential.

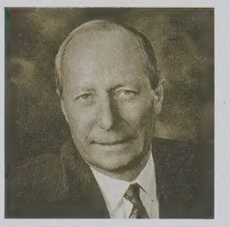
Our financial performance in managing assets, investing capital and profitably exiting from investments has placed us in the top quartile of venture capital performance in North America. We are known, and we believe respected, for ensuring integrity on our balance sheet. The underlying value of Vencap to which we consistently refer, represented by net asset value per share, must always be accepted with confidence by our shareholders and the investment community. We do not entertain notions of obscuring the down-side risk that may exist within the venture investment portfolio.

The $16.6 million in permanent impairments recorded for fiscal 1994 is the aggregate write-off of six venture investments; $13.5 million of which is represented by two companies. We have expended the greatest possible degree of patience and assistance during the last few years in effecting turnarounds of both these situations. We do not believe that a recovery of capital is likely, however, and the only acceptable course of action is to reflect these impairments immediately in year-end results. Details on these situations, as well as information pertaining to our investment activities throughout the entire year, are contained in accompanying sections of this report.

For the year ended March 31, 1994,

Vencap's revenues were $11.5 million compared to $20.2 million the previous year. Net income was $0.8 million compared to $5.1 million reported in 1993. Basic earnings per share at year-end reflected reduced earnings and were $0.22 from the $1.37 in the previous year. On a fully diluted basis, earnings per share were $0.19 compared to $0.46 reported in 1993.

The value of shareholders' investment in Vencap is defined by the shareholders' equity accruing on their behalf. During 1994, shareholders' equity increased to $56.6 million from $52.6 million the previous year. Basic net asset value per share increased to $16.21 from $14.25 while fully diluted net asset value per share increased to $5.97 from $5.62.



Don Carlson
Chairman of the Board

Since 1983, Vencap has invested and committed $254.0 million of venture capital in 73 companies. Many of these companies would not be in existence today or have experienced the successful growth of their operations were it not for the investment capital and value-added assistance provided by Vencap. Reflecting our risk-management strategy of maintaining balance among investments, our current venture portfolio contains companies from a cross-section of industries and at varying stages of growth and development.

Operating from this base of portfolio stability, we have increasingly developed and furthered our expertise at identifying investment opportunities from a broader geographic perspective. This geographic expansion of venture investing activities we have pursued over the last half decade has gained us recognition as the venture investor of choice within western North America.

Vencap pursues any exciting investment opportunities as we identify them or as they emerge. We continue to find and develop new opportunities with a strategic fit to the infrastructure we have established and operational strength we have developed. Subsequent sections of this annual report address our approach to executing that strategy and in carrying out the risk-management disciplines that direct our efforts.

The year ahead for Vencap, we believe, will continue to provide opportunity and excitement. As individuals, and collectively as a society, we are all the architects of our own futures. We continue to have economic challenges facing this country; we can only encourage our political leaders to abandon the state of inertia they have embraced as a solution in the absence of a will to make tough decisions and implement corrective solutions.

In western Canada, we have always taken pride at being the entrepreneurial leaders of this country. That reputation is being confirmed as Alberta emerges as a leader of economic renewal. Vencap's broadening geographic exposure has given us first-hand knowledge of the economic abilities and resources at work in other regions. We believe Alberta is unrivaled and point with no small degree of satisfaction and pride to Vencap as an Alberta-based fund reflecting the entrepreneurial drive and attitude of our home of origin.

On behalf of The Board of Directors,

Don Carlson
Chairman of the Board

R.A. (Sandy) Slator
President
Chief Executive Officer

Vencap combines a disciplined approach with an entrepreneurial attitude, and will continue to do so. We have, in recent years, more aggressively pursued investments from a broader geographic perspective, and will continue to do so. Vencap is gaining recognition as the investor of choice within western North America and is increasingly being called upon as a potential co-investor in other emerging situations and as a facilitator of joint-venture opportunities that bring together regional initiatives.

Vencap's asset base reflects risk-management practices of maintaining balance between the risk of venture capital investments and a high-quality marketable securities portfolio, which consists of publicly traded preferred shares and government-backed securities.

Retained earnings is the accumulation of annual net income, less dividends and other capital items.

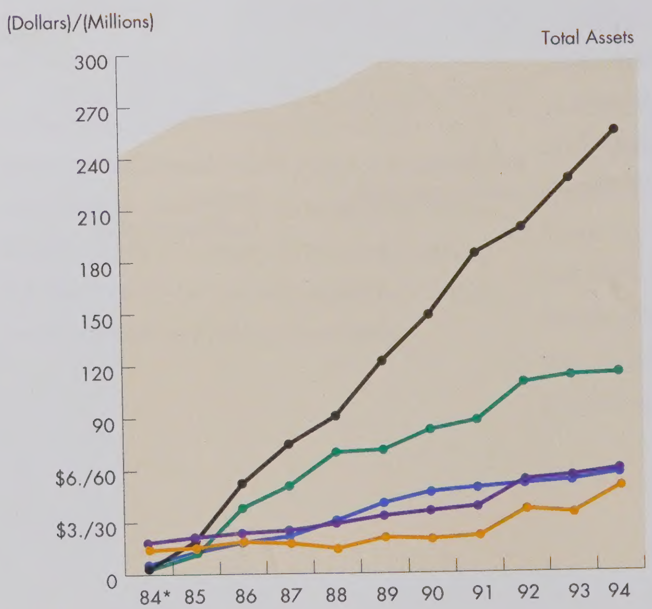
Net asset value per share is based on shareholders' equity divided by the number of common shares issued and outstanding. It represents the underlying value of Vencap to shareholders on a per share basis and results from the application of conservative accounting practices.

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Assets	264.1	266.8	271.2	279.0	294.7	294.1	287.4	292.7	293.2+	294.0
Marketable Securities	243.3	216.8	210.4	202.2	217.4	203.7	192.9	177.7	175.4	171.7
Venture Investments (Carrying Value - net of allowance)	11.1	38.2	50.8	69.9	71.1	82.5	87.8	109.3	113.5	114.4
Retained Earnings										
Beginning of Year	1.1	8.9	16.5	24.8	32.7	42.1	48.2+	48.6+	53.0+	56.9+
End of Year	8.9	16.5	24.8	32.7	42.1	48.2+	48.6+	53.0+	56.9+	56.3
Shareholders' Equity	12.4	17.9	21.4	30.3	40.1	46.3+	48.3+	50.2+	52.6+	56.6
Net Asset Value Per Common Share										
Basic	$2.84	$4.06	$4.80	$6.86	$9.12	$10.55+	$11.89+	$12.91+	$14.25+	$16.21
Fully Diluted	$2.31	$2.54	$2.67	$3.04	$3.45	$ 3.70+	$ 3.93+	$ 5.37+	$ 5.62+	$ 5.97
Share Price (at March 31)	$1.75	$2.05	$1.95	$1.65	$2.25	$ 2.15	$ 2.30	$ 3.75	$ 3.55	$ 5.00

+Restated (Note 12)

balance sheet highlights

Millions, except per share figures

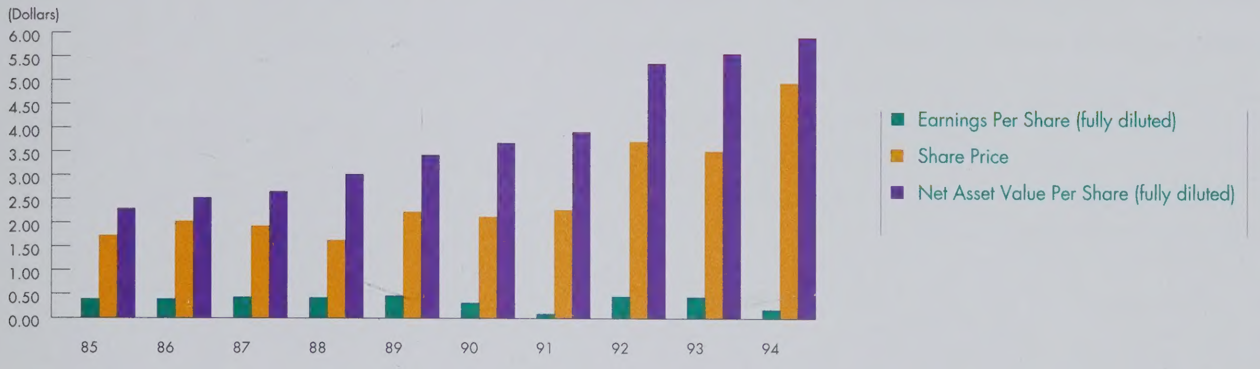


*Partial year Original share offering October, 1983, at $1.00 per share

- Venture Investments (cumulative since inception) $254.0 million
- Venture Investments (carrying value of current portfolio at year-end) $114.4 million
- Shareholders' Equity $56.6 million
- Net Asset Value Per Share (fully diluted) $5.97
- Share Price Shares closed March 31, 1994 at $5.00

income statement highlights

Millions, except per share figures



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Revenue										
Marketable Securities	25.5	23.8	22.4	20.3	17.6	21.3	19.8	17.2	16.6	18.7
Venture Investments	.1	(1.0)	1.7	2.4	13.7	(1.5)	(9.3)	3.0	3.6	(7.2)
Total Revenue (net)	25.6	22.8	24.1	22.7	31.3	19.8	10.5	20.2	20.2	11.5
Total Expenses	17.8	15.2	15.8	14.8	21.8	13.7+	9.4+	14.9+	15.1+	10.7
Net Income	7.8	7.6	8.3	7.9	9.5	6.1+	1.1+	5.3+	5.1+	.8
Earnings Per Share										
Basic	$1.83	$1.73	$1.86	$1.80	$2.16	$1.39+	$0.26+	$1.31+	$1.37+	$0.22
Fully Diluted	$0.41	$0.41	$0.45	$0.44	$0.48	$0.31+	$0.09+	$0.45+	$0.46+	$0.19

+Restated (Note 12)

Revenue includes interest and dividend income from both the Marketable Securities Portfolio and Venture Investment Portfolio. Since 1983, total interest and dividend income earned has amounted to $203.6 million and $28.6 million respectively. Total Revenue reflects adjustments for gains, losses and permanent impairments.

venture capital investments

Name of Company	Major Products or Services	Fiscal Year First Invested	Stage of Investment: At First Investment	Stage of Investment: At March 31, 1994
Consumer Products/Retail Ventures:				
Banff Rocky Mountain Resort Ltd.	Banff Rocky Mountain Resort managing partner.	1986	Expansion	Special Sit'n
CRS Restaurants Inc.	WesterN SizzliN restaurants & Don Cherry's sports bars.	1991	Early Stage	Written Off
The Forzani Group Ltd. **	Retail sport/leisure clothing & equipment.	1991	Expansion	IPO **
Great Canadian Railtour Company Ltd.	Rocky Mountain Railtour vacation packages.	1991	Early Stage	Early Stage
Liquidation World Inc.+	Close-out merchandise & excess inventory.	1990	Expansion	Sale
Mark's Work Wearhouse Ltd. +	Retailer of work & casual apparel.	1992	Expansion	Expansion
Marr's Leisure Holdings, Inc.	Distributor of recreational equipment & accessories.	1992	Special Sit'n	Special Sit'n
Medicine Shoppe Canada, Inc.	Canadian chain of retail drug outlets.	1992	Early Stage	Early Stage
Monarch Communications Inc.	Radio, TV & cable stations.	1991	Expansion	Expansion
Pacific Linen Inc.	North American chain of quality bedroom, bath & table linens.	1993	Expansion	Expansion
Net write-up of consumer products/retail ventures				
Total Consumer Products/Retail Ventures				
Industrial/Manufacturing Ventures:				
Albchem Industries Ltd.	Manufacturer of sodium chlorate.	1990	Early Stage	Expansion
ALPECO Limited	Oil field equipment.	1988	Early Stage	Sale/Taro
AMPTECH Corporation	Precision injection-molded plastics.	1987	Expansion	Expansion
Asani International Corporation	International trading company.	1991	Early Stage	Written Off
Central Western Railway Holdings Corp.	Short-line industrial railway.	1992	Early Stage	Expansion
The Churchill Corporation +	Industrial holding company.	1987	Expansion	Expansion
H.P.I. Beverages Ltd.	Independent bottler & canner of beverages.	1989	Expansion	Sale
Intercane World Corporation Ltd.	Proprietary sugarcane processing equipment.	1987	Early Stage	Early Stage
K-Bro Linen Systems Inc.	Laundry services, primarily health-care related.	1990	Expansion	Expansion
Lakeside Farm Industries Ltd.	Meat packing & integrated agribusiness.	1986	Expansion	Expansion
Mountain Minerals Co. Ltd.	Industrial minerals mining & processing.	1986	Expansion	Sale/Trader
Nascor Incorporated	Energy-efficient building structures.	1986	Expansion	Expansion
Protective Apparel Inc.	Fire-resistant & other protective apparel.	1991	Early Stage	Expansion
PTI Group Inc.	Food services, camp facilities & oilfield supply.	1984	Expansion	Expansion
Taro Industries Limited +	Oilfield equipment & products.	1994	Expansion	Expansion
Trader Resource Corp. +	Precious & industrial minerals mining & processing.	1994	Expansion	Expansion
Net allowance against industrial/manufacturing ventures				
Total Industrial/Manufacturing Ventures				
Technology Ventures:				
Applied Microsystems Corporation	Computer emulation hardware & software.	1992	Early Stage	Early Stage
BIOSTAR, Inc.	Vaccines for animal health industry.	1994	Early Stage	Early Stage
BIOSYS +	Biological pesticides.	1988	Early Stage	IPO Fiscal '92
Camelot Superabsorbents Inc.	Superabsorbent fiber products.	1994	Early Stage	Early Stage
Centennial Fund IV	Telecommunications & technology venture capital fund.	1994	Special Sit'n	Special Sit'n
Cholestech Corporation +	Pharmaceutical & diagnostic medical products.	1991	Early Stage	IPO Fiscal '93
Crystalline Materials Corporation	Advanced materials products.	1993	Early Stage	Early Stage
Innogenics Inc.	Breast cancer prognostics.	1990	Early Stage	Written Off
Medwave, Inc.	Medical electronic measurement devices.	1992	Early Stage	Early Stage
Newtek Ventures II	Technology venture capital fund.	1991	Special Sit'n	Special Sit'n
Oncogenetics, Inc.	Testing services relating to the genetic basis of cancer.	1993	Early Stage	Early Stage
OncoTherapeutics, Inc.	Development of cancer therapeutics & diagnostics.	1993	Early Stage	Early Stage
OrthoLogic Corp +	Electrostimulation medical devices.	1989	Early Stage	IPO Fiscal '93
Pathfinder Venture Capital Fund III	Medical & electronics venture capital fund.	1990	Special Sit'n	Special Sit'n
PRIZM Pharmaceuticals, Inc.	Therapeutic medical products.	1994	Early Stage	Early Stage
Redwood Microsystems, Inc.	Micro-machined valves.	1994	Early Stage	Early Stage
SangStat Medical Corporation **	Diagnostic & therapeutic medical products.	1992	Early Stage	IPO **
SPURT Investment Fund I	Technology venture capital fund.	1986	Special Sit'n	Written Off
Ubitrex Corporation	Point-of-care health-care information systems.	1992	Early Stage	Written Off
Net write-up of technology ventures				
Total Technology Ventures				
Total Venture Portfolio Balance				

\+ Publicly traded company

** Initial Public Offering during fiscal 1994

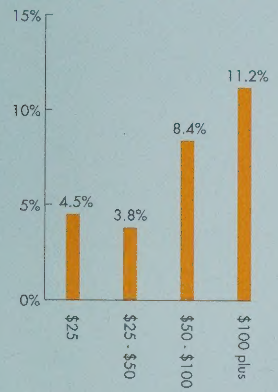
New Investment and/or Follow On Investment during fiscal 1994

venture performance

To March 31, 1994 (Millions)

Big Venture Funds Have Performed Better Than Others

Capital-Weighted IRR as of December 1992



Size of Fund in $Millions

Source: 1993 Investment Benchmarks Report: Venture Capital, Venture Economics, Boston, MA

Venture performance

Venture capitalists managing big pools of money have produced higher returns in the past than their colleagues managing smaller funds. In its most recent study of venture capital partnership performance, Venture Economics, Boston, found that funds of $100 million or more have produced an average capital-weighted internal rate of return (IRR) nearly 400 basis points higher than funds of any other size.*

Recent trends of the past few years have seen significant institutional capital entering the venture capital industry to create new $100-million-plus funds. Not a surprising phenomenon given the performance results described above. The experienced and mature funds that historically have proven successful at managing these levels of capital will continue to succeed based on the disciplined investment practices they have established and the track record of results which they have proven their ability to accomplish.

*The Private Equity Analyst, April, 1994

On the basis of rate of return, Vencap ranks in the top 25% of the other 44 North American venture funds also formed in 1983 and in the top 35% of the 220 funds formed between 1976 and 1983.

Venture portfolio exits

	Total Funds Invested	Net Sale Proceeds	Return of Capital	Permanent Impairment	Dividend & Interest Income	Total Cash Returned
Consumer Products/Retail	20.0	8.7	1.7	11.3	1.2	11.6
Industrial/Manufacturing	44.1	52.0	1.9	10.6	2.4	56.3
Technology	45.8	28.2	0.6	22.5	4.1	32.9
	109.9	88.9	4.2	44.4	7.7	100.8

In the venture capital industry, failures emerge before winners. Vencap has, throughout its history, identified loss situations quickly.

Publicly traded companies in venture portfolio

(Canadian dollars unless otherwise indicated)

Publicly traded investments generally are easier to sell than those that are privately held. This potential ease of disposition is commonly referred to as increased liquidity. Venture investments that are publicly traded and have quoted market values are carried at values based on the quoted market prices as at March 31, 1994.

Company/Trading Symbol	Stock Exchange	Average Cost per share	IPO Price/ Date	Shares held by Vencap 3/31/94	Market Price 3/31/94
BIOSYS/BIOS	NASDAQ	$5.51 U.S.	$12.00 U.S. March '92	353,063	$4.75 U.S.
Cholestech Corporation/CTEC	NASDAQ	$9.69 U.S.	$5.00 U.S. June '92	128,585	$5.00 U.S.
The Churchill Corporation/CUQ	Alberta Stock Exchange	$2.60	Public at time of investment	1,153,846	0
The Forzani Group Ltd./FGL	Toronto Stock Exchange	$4.00	$5.88 Aug.'93	875,000	$10.25
Mark's Work Wearhouse Ltd./MWW	Toronto Stock Exchange	$0.94	Public at time of investment	4,556,824	$1.30
OrthoLogic Corp/OLGC	NASDAQ	$3.31 U.S.	$6.50 Jan.'93	505,870	$6.25 U.S.
SangStat Medical Corporation/SANG	NASDAQ	$4.89 U.S.	$7.00 Dec.'93	380,637	$7.62 U.S.
Taro Industries Limited/TIN	Toronto Stock Exchange	$0.84	Public at time of investment	5,490,532	$1.02
Trader Resource Corp./TRR	Toronto Stock Exchange	$0.86	Public at time of investment	1,055,884	$0.90

activity during fiscal 1994 | Thousands |

Balance March 31/93	Additional Investment During Fiscal 1994: New Company	Additional Investment During Fiscal 1994: Follow On	Dispositions During Fiscal 1994: Sale	Dispositions During Fiscal 1994: Return of Capital	Permanent Impairment	Decrease (Increase) in Allowance for Net Unrealized Gains (Losses)	Balance March 31/94	Gains (Losses) on Dispositions During Year	Interest & Dividend Income During Year	Additional Commitments Approved but Not Closed
				(Canadian Dollars)						
7,218	0	0	0	(169)	(6,800)		249			
5,500	0	1,200	0	0	(6,700)		0			
3,500	0	0	0	0	0		3,500			
3,676	0	200	0	0	0		3,876			
220	0	0	(220)	0	0		0	335		
4,292	0	0	0	0	0		4,292			
1,035	0	0	0	(270)	0		765			
600	0	825	0	0	0		1,425			
5,582	0	0	0	0	0		5,582			
3,412	0	1,326	0	0	0		4,738			
35,035							24,427			
(2,764)						4,836	2,072			
32,271	0	3,551	(220)	(439)	(13,500)	4,836	26,499		744	
11,548	0	0	0	0	0		11,548			3,029
3,469	0	0	(3,469)	0	0		0	2,024		
4,575	0	0	0	(150)	0		4,425			
1,250	0	0	0	0	(1,250)		0			
1,000	0	0	0	0	0		1,000			
14,000	0	0	0	0	0		14,000			
850	0	0	(850)	0	0		0	205		
4,000	0	0	0	0	0		4,000			
3,225	0	500	0	(500)	0		3,225			
12,750	0	0	0	0	0		12,750			
2,450	0	651	(3,101)	0	0		0	1,413		
1,500	0	0	0	0	0		1,500			
2,100	0	0	0	0	0		2,100			
1,825	0	3,387	0	0	0		5,212			
0	4,838	0	0	(37)	0		4,801			
0	903	0	0	0	0		903			
64,542							65,464			
(6,176)						(1,123)	(7,299)			
58,366	5,741	4,538	(7,420)	(687)	(1,250)	(1,123)	58,165		4,704	
4,131	0	0	0	0	0		4,131			
0	584	0	0	0	0		584			1,116
2,354	0	0	0	0	0		2,354			
0	857	0	0	0	0		857			388
0	200	0	0	0	0		200			3,943
1,459	0	0	0	0	0		1,459			
1,919	0	656	0	0	0		2,575			554
275	0	0	0	0	(275)		0			
287	0	0	0	0	0		287			
2,098	0	620	0	(172)	0		2,546			995
1,198	0	136	0	0	0		1,334			899
2,394	0	0	0	0	0		2,394			
2,029	0	0	0	0	0		2,029			
951	0	790	0	(140)	0		1,601			830
0	1,986	0	0	0	0		1,986			
0	1,934	0	0	0	0		1,934			
1,712	0	514	0	0	0		2,226			
252	0	0	0	0	(252)		0			
1,350	0	0	0	0	(1,350)		0			
22,409							28,497			
440						787	1,227			
22,849	5,561	2,716	0	(312)	(1,877)	787	29,724		23	
113,486	11,302	10,805	(7,640)	(1,438)	(16,627)	4,500	114,388	3,977	5,471	11,754

Corresponds to Balance Sheet (1993)

Correspond to Note 4

Corresponds to Statement of Income, Statement of Changes in Financial Position and Note 4

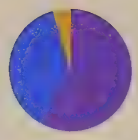
Corresponds to Statement of Changes in Shareholders' Equity and Note 4

Corresponds to Balance Sheet (1994)

Corresponds to Statement of Income

Corresponds to Statement of Income

Total dividend & interest income from all venture investments in 10 years is $28.6 million



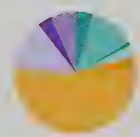
Total venture investments (millions)

Investments & Commitments	Since Fiscal 1984	Fiscal 1994
New Investments	$147.6	$11.3
Follow On Investments	94.6	10.8
Commitments	11.8	11.8
Total	$254.0	$33.9

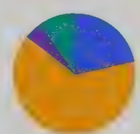
Since inception in October, 1983, Vencap has invested and committed a total of $254.0 million in venture investments. Of the $254.0 million cumulative venture activity, $130.1 million is currently invested and committed. The remaining $123.9 million has been sold or written off. An investment exit summary is contained on the following page.

Venture investment portfolio by stage and sector (gross)

Consumer products/retail – 8 companies		
2 Early Stage	$ 5,301	
3 Expansion Stage	14,612	
2 Special Situations	1,014	
1 Initial Public Offering in '94	3,500	
	$ 24,427	20.6% of total portfolio
Industrial/manufacturing – 12 companies		
1 Early Stage	$ 4,000	
11 Expansion Stage	61,464	
	$ 65,464	55.3% of total portfolio
Technology – 16 companies		
9 Early Stage	$ 16,082	
3 Special Situations	4,347	
4 Public Offerings since Investment	8,068	
	$ 28,497	24.1% of total portfolio
Total – 36 companies		
12 Early Stage	$ 25,383	21.4% of total portfolio
14 Expansion Stage	76,076	64.3% of total portfolio
5 Special Situations	5,361	4.5% of total portfolio
5 Public Offerings since Investment	11,568	9.8% of total portfolio
	$118,388	100.0% of total portfolio

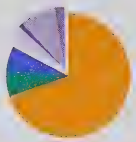


- Consumer Products/ Retail 20.6%
- Industrial/ Manufacturing 55.3%
- Technology 24.1%



- Early stage 21.4%
- Expansion stage 64.3%
- Special situations 4.5%
- Public offerings since investment 9.8%

operations review



Gross Venture Portfolio (1993)	$122.0
New Venture Investments	$ 11.3
Follow On Investments	$ 10.8
Sold	$ (7.7)
Capital Returned	$ (1.4)
Impaired	$ (16.6)
Allowance	$ (4.0)
Net Venture Portfolio (1994)	$114.4

(Millions)

Venture investments

	Number of Companies
March 31, 1993	38
New Investments	7
Dispositions	(4)
Full Permanent Impairments	(5)
March 31, 1994	36

New investments

During fiscal 1994, Vencap invested $11,302,000 in seven new investments, four of which are early stage/start up situations of a technology orientation. Two investments are at mature, expansion stages of development, investments which resulted from the sales of two companies in Vencap's venture portfolio. Proceeds from these sales were in the form of cash and shares in the acquisitor companies. The seventh new investment is a venture capital fund which specializes in telecommunications and related technology businesses. Vencap invests in other venture capital funds which specialize in those technology-related areas in which Vencap has interest and which do business in the strategic geographic regions within North America in which Vencap also operates.

New investments fiscal 1994

Taro Industries Limited	$ 4,838,000
Trader Resource Corp.	$ 903,000
BIOSTAR, Inc.	$ 584,000
Camelot Superabsorbents Inc.	$ 857,000
Centennial Fund IV	$ 200,000
PRIZM Pharmaceuticals, Inc.	$ 1,986,000
Redwood Microsystems, Inc.	$ 1,934,000

Follow on investments

Follow on investments totalling $10,805,000 in 12 companies were advanced by Vencap during fiscal 1994. Six of the 12 follow on investments were in early stage companies in the venture portfolio. Follow on investments are made in start up/early stage companies based on specific milestones and/or performance being achieved. We provide sufficient capital in the initial stages of a company's development to test and prove a concept, market and/or technology. Additional rounds of investment follow when the potential to develop into a well-positioned business venture is determined.

Four follow on investments during fiscal 1994 were made in companies at expansion stages of development. Follow on investments will be made in the established, mature companies in which Vencap initially invested to finance growth and expansion, as competitive advantage and market position are confirmed and as their ability to expand operations and demonstrate increased profit potential have been proven. Follow on rounds of equity also enable companies to take advantage of opportunities presented by an uncertain economy, by acquiring or merging with competitors or purchasing capital equipment at reduced prices.

Follow on funds also were advanced to two other venture funds in which Vencap is involved as part of the regular calls for capital that occur with venture fund investments. The details of all follow on transactions are contained in the venture portfolio spreadsheet, page 6.

Dispositions

During fiscal 1994, all dispositions resulted in gains. Proceeds realized from the disposition of four investments totalled $11,617,000 with a net gain of $3,977,000.

Liquidation World Inc. Proceeds of $555,000, net gain of $335,000 in fiscal 1994 following sale proceeds of $3,398,000 and a net gain of $2,127,000 on partial disposition in fiscal 1993. Over-all annualized rate of return of 43.1%.

ALPECO Limited Proceeds of $5,493,000, net gain of $2,024,000, on sale of company to Taro Industries Limited. In addition to cash proceeds realized on the transaction, Vencap also now holds 5,490,532 common shares and special warrants in Taro, a publicly traded company on The Toronto Stock Exchange. Over-all annualized rate of return on ALPECO disposition of 8.6%.

Vencap accounts for venture investments conservatively. Detailed information on the venture portfolio and the financial transactions during fiscal 1994 of each investment by portfolio category are found on pages 6 and 7 along with segment disclosure of allowances against and/or write-ups of portfolios by industry. Further analysis shows the venture portfolio by amounts of investment commitments by stage and as percentages of Vencap's total venture portfolio.

H.P.I. Beverages Ltd. Proceeds of $1,055,000, net gain of $205,000 on the sale of Vencap's interest in the company to H.P.I. management. Over-all annualized rate of return of 11.6%.

Mountain Minerals Co. Ltd. Proceeds of $4,514,000, net gain of $1,413,000 on sale of company to Trader Resource Corp. In addition to cash proceeds realized on the transaction, Vencap also now holds 1,055,884 shares in Trader, a publicly traded company on The Toronto Stock Exchange in which majority ownership is held by Royal Oak Mining Company. Over-all annualized rate of return on Mountain Minerals disposition of 6.6%.

Management recorded permanent impairments throughout fiscal 1994 totalling $16,627,000 against six companies. Five of the six represent full impairments against investments; the sixth represents a partial impairment with the remaining portion of funds secured by assets.

Banff Rocky Mountain Resort Ltd.	$ 6,800,000
CRS Restaurants Inc.	$ 6,700,000
Asani International Corporation	$ 1,250,000
Innogenics Inc.	$ 275,000
SPURT Investment Fund I	$ 252,000
Ubitrex Corporation	$ 1,350,000

These investments were reflected in the allowance Vencap provides for potential unrealized gains and losses. Private-company investments are accounted for on a conservative basis, at cost adjusted for unrealized losses and certain unrealized gains. At year-end 1994, Vencap decreased the allowance it provides against the venture portfolio by $4,500,000 to $4,000,000.

At an operational level throughout 1994, Vencap continued to maintain modest staff levels with the recruitment of an eighth investment professional occurring at year-end. Total employees currently number 20 people. At a management level, two Senior Vice President positions were established to more effectively manage the growing operations of the company. Oleh S. Hnatiuk and Ian T. Morris, both long-time employees and with extensive experience in the venture capital industry, assumed Senior Vice President responsibilities in early 1994. Ian Morris retains his positions as Chief Financial Officer and Secretary of the corporation and is primarily focused on all corporate finance activities relating to Vencap. Oleh Hnatiuk assumed responsibility for all current and ongoing venture investment activities in which the company is engaged.

The operational outlook facing Vencap in 1995 is, in management's view, one of continued attention and assistance being directed to the companies in which Vencap is an investor. As foreseen last year, many are at a stage of proven, sustainable growth whereby initial public offerings can be considered for some, sale to strategic acquisitors can be facilitated for others. During fiscal 1994, we saw two companies in our venture portfolio undertake initial public offerings and another two attract the interest of larger established acquisitors. We expect that routes to exit for other companies in the venture portfolio will continue to be recognized and become available in the year ahead.

New Investments Fiscal 1994	$ 11.3
Follow On Investments Fiscal 1994	$ 10.8
Follow On Commitments Fiscal 1994	$ 11.8
Total New Investments Since 1983	$147.6
Total Follow On Investments Since 1983	$ 94.6
New and Follow On Investments Since 1983	$254.0

(Millions)

Venture capital is risk

Vision. Direction. Strategy.

capital. Vencap's

Tactics. They are all important.

venture portfolio

No matter where we compete.

represents the balance

Performance depends

between risk

on clear vision,

exposure and

solid preparation, and the

potential for reward

effective deployment of tactics to

that underlines all

achieve results. Success occurs

investment strategies

when powerful strategies are

and decisions of

executed by consummate

the company.

professionals with experience,

skill and imagination.

risk management

Vencap measures risk and maintains balance in our investment activities by identifying and analyzing the factors that are critical to the success or failure of each company in which we might invest. Subsequent sections of this annual report address Vencap's management approach and discipline to each.

The Core Business:
Technology, Product, Service

Financial

Market

Management

Identifying and analyzing these fundamentals is required regardless of the size or stage of investment being considered, or industry within which the opportunity operates. All venture capital is risk capital. The degree of risk relative to potential for reward is, in the final analysis, the determining factor in making an investment.

Vencap's over-all investment approach is based with a strategic view to:

- asset class: equity or debt; public or private company
- industry
- stage: seed, early, start up, expansion, acquisition
- ownership position: minority or control
- geographic location: within the western Canada/U.S. corridor of North America in which we operate
- Vencap's role: lead investor or co-investor

This approach has enabled Vencap to maintain an appropriate balance in degrees of risk relative to the amount of invested and committed capital. Combined with our investment-management practices, the result is a venture portfolio that is balanced by both

Vencap's practice of combining thorough investment analysis and discipline with a strategic awareness of asset allocation directs our two-fold thrust to venture capital investing:

Management of Content. Investments by industry and stage within the venture portfolio.

Management of Process. How we manage, add value, build companies and profitably exit from these investments.

Vencap's strategic investment focus identifies opportunities by geography, stage, industry, and is driven by a disciplined, professional approach. Different risk profiles and reward potentials exist depending on stage of investment and industry in which it operates. Typically, the highest capital gains are achieved from start up technology investments; the greatest potential for failure exists with these investments as well. As of year-end 1994, 21.4% of Vencap's current venture portfolio consisted of early stage investments. This proportion of early stage investment is appropriate relative to time and risk-management considerations.

industry sector and stage. In terms of industry focus, our venture portfolio is categorized according to:

Consumer Products/Retail

Industrial/Manufacturing

Technology

In terms of stage, our venture activities over the past 10 1/2 years have reflected the full range of investment possibilities:

Seed

Start up

Early Stage

Expansion

Mature

Almost half of the 73 companies, 48%, in which Vencap has invested in our 10 1/2-year history have been pure start ups or early stage businesses. More remarkable is that 23 of them, 66%, are still in existence. The average success ratio for start up investments in the venture capital industry is in the five to 10% range.

Investments at a mature stage of development are often assumed to have a lower level of capital gain potential. That is not a view shared by Vencap based on gains from previous investments and those we anticipate from other investments currently in our portfolio. As well, Vencap generally earns a running yield from investments in mature companies in the form of dividends or interest. Mature companies are more likely to have the cash flow to provide a dividend return to investors than early stage companies.

Regardless of an investment's industry characteristics, stage of development and fit within Vencap's over-all investment approach, certain criteria set out the basic elements by which each deal will initially be measured and evaluated:

- entrepreneur and/or management team in which we are investing
- competitive advantage of the product or service
- high growth potential or market for product or service, ie: opportunity for expansion in national and international markets
- discernable basis on which profits and return on investment can be built
- deal structure and pre-money valuation
- size: initial investment, total financial requirements and how funds are to be advanced over time
- time and anticipated mechanisms for achieving liquidity
- anticipated barriers to success
- co-investors: current or potential involvement of private investors, other venture capital funds, corporate investors
- Vencap's ability to bring appropriate value-added expertise to the investment

Although thorough analysis and good decision-making occurs at the time investments are undertaken, situations and circumstances can change due to unsettled economic climates and conditions. Regardless of the risk profile determined at the outset, new and unforeseen risk parameters can and do evolve.

Vencap's investment involvement

is specific to each company but typically is on a minority basis ranging from 10% to 40% involving common and/or preferred shares.

Vencap commitments have ranged from $150,000 to $18 million, with average investments between $2 and $4 million.

Depending on the growth strategy and cash forecasts of a company, dividend payment schedules may be negotiated.

risk management

At Vencap, risk management disciplines, combined with market anticipation, is ongoing and ever-present. We know first-hand that businesses can fail due to:

- trade barriers imposed, eliminating export capabilities upon which a company was established
- lack of support from financial institutions
- lack of market shift to accept premium, value-added product or service
- loss of a strategic alliance fundamental to the technology development of an emerging specialty

While these examples illustrate unforeseen obstacles, Vencap's view of risk management investing ensures that poor investments are seldom the result of poor decisions at the outset. We undertake extensive due diligence throughout the entire term of deliberation, negotiation and decision-making prior to committing investment funds.

At Vencap, our due diligence process employs a systematic approach to reviewing each investment decision. We will retain technical, marketing, financial and legal expertise to ensure a complete assessment. The scope of our due diligence and key areas of concentration include:

- management assessment
- product or service analysis
- technology assessment
- market and competition review
- strategy review
- financial strategy and projections analyses
- financial records, statements, budgets and, projections
- corporate records and documentation
- operational management reviews
- personal qualifications
- legal and regulatory issues including environmental audits
- interviews with customers, suppliers, and employees
- engineering and technical investigation and analysis
- market studies
- intellectual property review
- on-site inspection

Vencap's investment process is thorough and intensive. We invest in companies that meet our criteria and we believe can meet our expectations.

the core business

Technology. Product. Service.

Vencap's total venture portfolio currently includes 36 companies within three industry sectors. Industrial/Manufacturing generally contains established companies where Vencap has invested in potential for growth through expansion and acquisition. Albchem Industries Ltd. is an exception to this rule. One of 12 Industrial/Manufacturing investments, Albchem was a pure start up at the time of Vencap's original investment.

The Albchem story is multi-faceted, combining technological applications within a manufacturing environment at a start up stage of development that required significant capital funding – an intimidating risk profile for most investors.

Vencap's initial investment of $5,000,000 in 1990 was followed in subsequent years with additional rounds totalling $6,548,500, a portion of which was used to acquire the ownership position held by Sherritt Inc. as a result of a change in that company's corporate strategy. Vencap's current investment in Albchem is $11,548,500. Vencap was attracted to invest in Albchem by the exceptional track record of its management team in successfully managing similar risks and in the potential to establish a low cost competitive position in a growing market.

Within the first year of Vencap's investment, Albchem went from blueprints to a fully constructed and operational plant. Its current production capacity of 55,000 tonnes of sodium chlorate is shipped worldwide to customers in Australia, Asia, South America, the United States and five Canadian provinces. Albchem's advantage, and the competitive strength upon which Vencap concentrated the majority of our evaluation and due

Vencap develops an investment plan for each portfolio company with formal reviews on a quarterly basis. The plan defines or updates Vencap's ongoing investment management requirements. All risk factors and critical issues are identified as well as strategies and actions to be implemented.

High technology investments are the ultimate test of the risk/reward equation. Evaluating these investments requires no less attention or analysis than other industries. Some would say more. Critical factors that differentiate technology investments from others focus on the technology itself. While stage of any investment is a fundamental consideration in evaluating risk profiles, it is a critical factor in technology assessment. Vencap pursues high technology investments at an early stage of development recognizing that, with proper management and value-added assistance, these investments have the potential for significant capital gain.

diligence, was Albchem's ability to economically manufacture an environmentally friendly alternative to chlorine in the pulp bleaching process.

We have seen the risk/reward potential of this investment decrease/increase exponentially. Driven by demand to reduce dioxins discharged in the bleaching process, the bleached kraft pulp industry increasingly uses sodium chlorate. Most pulp mills built since the late 1980s are designed for the exclusive use of sodium chlorate while existing plants are being converted.

The demand for sodium chlorate in North America alone is forecast to reach 1.8 million tonnes by 1996 – more than double 1990 levels. Albchem remains the world's lowest-cost producer. With current production capacity of 55,000 tonnes, Albchem is now contemplating an expansion to meet growing demand.

Albchem has developed a full management team with the depth, experience and motivation to further the company's growth. Operating as a single manufacturing plant, Albchem's competitive advantage can be attributed to its recognizing the mutually dependent priorities of plant design, construction, operation and ongoing maintenance to ensure it is a dependable, low-cost manufacturer of quality product at its rated production capacity.

Albchem's primary competitive strategy has been to establish and reinforce its position as a low-cost producer of sodium cholorate on the basis of its ability to solution mine salt and to access low-cost industrial power in Alberta.

The company has managed market risk by developing a geographically diversified base of customers which require sodium chlorate for a range of applications beyond the bleached kraft

Crystalline Materials Corporation, a start up technology investment described in last year's annual report, achieved its first-year target to establish a synthetic diamond powder and coatings manufacturing plant in Calgary, Alberta. Vencap's original investment of $1,918,617 was followed in fiscal 1994 with additional funds of $656,456 as part of an equity financing that included investments by JAFCO America Ventures, 60% owned by Nomura Securities of Japan, Allstate Venture Capital, and Burr, Egan Deleage & Co. Financing proceeds will support Crystalline's development through early 1995, which may include expansion of the manufacturing plant's production capacity.

pulp industry, including water treatment, uranium refining and agricultural applications.

Financial risk is addressed by Albchem by maintaining a strong balance sheet, practising disciplined cash flow management, and arranging its project financing in a combination of currencies and terms of repayment.

Among the risk analyses undertaken by Vencap was an investigation and review of existing or potential environmental considerations and exposure. Although Albchem's core business is producing an environmentally preferred alternative to traditional chemicals, a full technology assessment is still applicable within almost any manufacturing process.

Albchem's plant environmental design was based on the best applicable technology and includes recycling all liquid streams and collecting and reusing all stormwater to ensure no liquid effluents are discharged. Solid wastes from salt brine treatment are removed under contract with Alberta Special Waste Management Corporation which accepts ownership of the material. Air emissions are exclusively hydrogen, with no harmful effects. Albchem meets, and in many cases exceeds, all government regulations and requirements. The sodium chlorate manufacturing process is environmentally benign.

During the last year, Albchem obtained ISO 9002 certification, the internationally recognized quality assurance designation required worldwide within manufacturing industries. Albchem received certification on its first attempt at registration and audit, becoming the first sodium chlorate manufacturer in North America to achieve this status.

the core business

Technology. Product. Service.

Albchem has achieved significant financial progress in a four-year span. With recent annual revenues of $23 million, the company has generated positive cash flow since 1992. Albchem has attracted the interest of potential investors and is currently pursuing a possible private equity placement. We believe the additional equity will be raised at a significant premium over Vencap's cost.

While evaluating the core business of an investment opportunity, Vencap establishes requirements for follow on rounds of equity and the parameters by which additional equity may be committed. Follow on investments are made in start up/early stage companies based on specific milestones achieved. Our strategy is to provide sufficient capital during initial stages of company development to test and prove a concept, market and/or technology. Additional rounds follow when the potential to be a well-positioned business venture is determined. Vencap's investments in mature, expansion-stage companies are intended to finance growth and expansion. Follow on investments in these companies are made as competitive advantages and market positions are confirmed.

Critical financial factors identified in evaluating an investment are a function of the industry and/or technology involved. For example, our financial analysis of technology-based investments places greater weight on key financial ratios relevant to the industry involved.

Vencap's financial analyses of venture investments are based on thorough measurements and ratios relevant to industries in which the potential investments operate. Our financial due diligence reflects issues raised by other equity partners, as well as terms of all financial arrangements that exist between an investment candidate and its principal banking institution. A critical aspect of our financial evaluation is the potential for exit. Identifying routes to liquidity, probabilities and difficulties, is essential.

financial

"In business, as in health care, early diagnosis and timely remedial measures are the least painful and most effective ways of counteracting a problem. Financial disaster seldom strikes out of the blue."* Vencap's attention to financial disciplines starts well before we commit venture funds and continues throughout the course of our involvement with a company. This financial philosophy extends beyond individual company investments to the over-all management of our venture portfolio, in which we have a significant commitment to health care investments.

Since the late 1980s, Vencap has steadily and increasingly pursued investments of a medical technology orientation and, by year-end 1994, counted eight medical-related investments in our over-all technology portfolio. These eight represent a total investment of $12,300,000, or 10.4% of our current invested funds.

Vencap's interest in health care related technologies, products and services is based on the up-side potential that exists for achieving significant capital gains on successful medical technology investments. These investments, however, have a long-term orientation within the reality of the high-tech financial risk/reward equation.

The financial risk assessment undertaken for a medical technology investment comprises a detailed plan examining issues specific to the opportunity and the relationship of those issues within health care economics – currently and expected.

* Bernard Wilson,
Canadian Treasurer,
February/March 1994

We review the financial implications of numerous economic forces being applied to the health care industry, including:

- demographics and trends
- expenditure trends
- reimbursement responsibilities and uncertainties: payers, payment bases, user fees
- cost containment and impact on health care products and services
- health care spending as a per cent of both GNP and employer payrolls
- health care reform
- the regulatory environment: issues, mechanics, changing requirements
- financial underpinnings: availability of financing by investors and public markets given the extent of capital required to bring products to market and the long lead time to market

Vencap's strategic focus on emerging medical technologies, products and services is based on our assessment that the health care industry represents a significant investment opportunity. While new technologies and drugs are cited as among the top 10 "drivers" of escalating health care costs throughout North America, many are actually driving the cost of health care down and are more cost-effective compared to traditional medical approaches, such as surgery. For example, while it can cost more than $10,000 to surgically repair a stomach ulcer, the cost of drugs to either prevent the ulcer from occurring or to cure it amounts to about $500 a year.

From the perspective of expenditures, drug and lab test costs are increasing. Balancing that economic argument, however, is the decreasing cost of hospital care that would otherwise be required.

The financial investment plan

developed by Vencap for each investment identifies the exit potential and routes to liquidity that could be employed. Financial issues addressed in the plan include: anticipated price/earnings levels; anticipated value drivers, such as revenue, profits, and market position at the time of exit that will determine selling price and appeal; prospects for attracting corporate purchasers upon exit; prospects for initial public offering as a means to exit or of securing additional financing; anticipated timing required to create sufficient value for exit to be attractive, and anticipated needs for future rounds of funding before exit. The value added assistance Vencap can contribute, and the degree to which it may be required, is also identified and defined.

financial

Factoring in the human element of people being healthier, staying out of hospital and recovering faster points to, in Vencap's assessment, an industry that will ultimately have to respond to its constituents' demands for improved patient-wellness approaches to health care delivery.

Vencap's financial management practices anticipate the ongoing requirements and allocation of venture funds and include an estimate on timing of liquidity and possible value on exit. Vencap deploys only the financial reserves necessary to maximize the income potential of all available capital.

Depending on the particular medical area involved, well-chosen investments often experience significant annual growth and provide good returns for their investors. Also, as the population ages, demand for better and more cost-effective health care alternatives grows. In short, given the financial crunch experienced in health care throughout North America, new medical solutions and treatments must be both medically superior and cost-effective.

Within the medical biotechnology sector, there are three critical issues on which investors are focused: increasing regulatory difficulties, the uncertainty being generated by proposals for health care reform, and the shortage of capital. Of these, shortage of capital requires the most attention. Even though attractive valuations in a broad range of investment opportunities are often the result, this shortage of capital raises concerns about future requirements and sources.

Vencap dedicates a great deal of time and attention on whether sufficient additional capital can be raised on acceptable terms in order that product and market development can be completed within break even cash flow parameters. We look for characteristics in the company, its plans and management to provide us with confidence that additional financing can be attracted when necessary. We consider carefully the continued financing abilities of our co-investors and their track records as partners who support the companies in which they invest. Once invested in a medical opportunity, Vencap directs the majority of our efforts to helping these companies establish relationships with the financial communities and other sources of capital that may be approached in the future.

Companies in the health care industry that Vencap has identified for investment are in the forefront of developing and commercializing exciting new medical technologies, products and services. Three of the eight businesses have undertaken initial public offerings (IPOs) since Vencap's original investment. They are, however, still early stage developing companies. In the case of emerging medical technologies, IPOs are more typically regarded as a public venture round of funding. As well, these equity financings usually attract new institutional co-investors to an investment as opposed to a broad base of retail investors.

The institutional co-investors involved with Vencap in health care investments are regarded as among the premier medical technology funds in North America. We view their commitment as validating our analysis and assessment process. Their value-added experience and expertise contribute significantly to the companies in which we have all invested. Co-investors include Pathfinder, Technology Partners, Accell, Coral Group, Vanguard, TVM Group, Domain Partners, Arizona Ventures, Paragon Venture Partners, Sentron Medical, Chemical Venture Partners, Forest Binkley & Brown, Montgomery Medical Ventures, MDS Health Ventures, and Paratech International.

Vencap has two full-time professionals educated in and with technical, industry and investment experience in health care fields. As well, a third individual with Vencap on a consultancy basis has extensive industry background and significant experience running a major Canadian pharmaceutical company. A member of Vencap's Board of Directors is internationally known and regarded for his work in medical biotechnology.

market

Recognizing and acting promptly on growth markets is often the difference between success or failure. Lakeside Farm Industries Ltd. is a company for which market conditions can change quickly and frequently.

Despite changing and uncertain market forces, Lakeside has become a significant player in Canadian agribusiness. It is one of the largest cattle feeding and beef packing operations in the country. It is the only company in its industry to operate all aspects of a fully integrated agribusiness: custom cattle feeding, meat packing, feed milling, fertilizer sales, poultry and hog production, and agricultural research services.

Lakeside's growth has occurred throughout a difficult period of industry rationalization, changing market conditions, and economic vagaries. This is an industry with low margins and incredibly tough market competition and exposure. It is an industry in which revenues can be severely impacted by a one-cent variance in price per pound of cattle bought and/or beef sold. Even unseasonal weather conditions are among the immediate sensitivities to which Lakeside is exposed and must respond daily.

At the time of Vencap's original investment of $5,000,000 in 1986, Lakeside had been in operation for 20 years and was an established, modest agribusiness. Vencap's investment was based on our belief in the real potential for Lakeside to grow and expand into the marketplace leader it is today. Our total current investment in the company at March 31, 1994, was $12,750,060.

Industries such as the one represented by Lakeside are often considered low-tech/low risk. No investment is without risk in Vencap's opinion and experience. The agricultural industry, in particular, is no longer one of the economic mainstays of the Canadian economy. In fact, the agribusiness environment in which Lakeside operates is one of the 17 traditional industries that, combined, now represent slightly less than 10% of Canada's gross domestic product. Agribusiness is an industry in transition;

Markets are global. There are no boundaries. Vencap pursues and forms alliances throughout the world so that companies we invest in can access and penetrate new markets quickly, and attract strategic market partners.

Among the market risks Vencap addresses in evaluating investment opportunities are the size of markets available, the competitive position of companies in their markets, and ability to exploit current markets and expand beyond. Vencap also identifies and anticipates the external market factors that could undermine a company's plan and potential. These could involve: ease of access to local markets by foreign competition, competition in markets in which an investment intends to expand, over-dependence on key suppliers of services or materials fundamental to the business, and vulnerability to general economic conditions.

Vision. Intelligent Anticipation.

there will be players who cannot compete. Industries in transition, however, offer significant investment potential to those investors who have accurately identified emerging successors in a restructured and consolidated industry — one that is internationally competitive and that can take advantage of global market opportunities. In the current and future economic environment, market risk exists by ignoring the global realities of doing business.

Vencap has a global perspective. We look for investment opportunities in companies that can compete worldwide. To that end, key market factors are investigated and specific tactics are employed as part of Vencap's market due diligence. Contact with customers is made to determine the degree to which products and business practices are endorsed and supported, and will continue to be in the future. We assess the value-added component of a company's product or service that differentiates it from competition and that is central to maintaining and growing a company's customer base. We determine management's understanding of the nature of the markets they serve and whether business strategies and operational plans are built on rational and realistic expectations. Viability in U.S. and offshore markets is analyzed; the Canadian marketplace does not have the critical mass to drive meaningful growth in many industries.

This due diligence focus on market risk and potential assists Vencap in determining the prospects of an investment becoming a dominant industry player. That can be accomplished either through market growth of existing operations and/or acquiring other businesses in the same industry.

This market due diligence can also identify possible, future routes to liquidity. Vencap's investment plan, including possible routes to and timing of liquidity, is reviewed on an ongoing basis with

Great Canadian Railtour Company Ltd., a company described in last year's annual report, operates the privatized VIA Rail Rocky Mountaineer passenger tour train service between Vancouver and either Calgary or Jasper. Vencap's original investment of $2,500,960 in 1991 was subsequently followed with funds totalling $1,375,000. A start up investment, Great Canadian in now entering its fourth full year of operation with passenger bookings 47% ahead of the previous year. Critical to its success will be the company's continued ability to market itself worldwide as a unique tourism experience and to access tourism networks in key international markets.

the companies in which we invest in order to solicit their input and ensure that all parties have a shared understanding and acceptance of future possibilities.

In terms of Lakeside's market expansion, the company continues to exploit global opportunities, particularly in Eastern Asia with the by-products of beef production in demand elsewhere. Hides, for example, are processed through Lakeside's hide plant and sold to overseas manufacturers of leather products. Tripe, a muscle found on the stomach walls of cattle, is a delicacy in Asian markets for which Lakeside fetches a high price.

Lakeside records annual sales approaching $600 million. Markets in the United States account for close to a quarter of its business. Lakeside has continually exercised market penetration into the U.S. and is aggressively pursuing specific U.S. beef grading designations for expansion into new markets.

A co-investor with Vencap in Lakeside is Mitsubishi Canada Limited, a subsidiary of Mitsubishi of Japan. Among the value-added benefits Mitsubishi offers is the unique positioning it provides Lakeside in the Japanese market. Mitsubishi is one of more than 100 funds with whom we have co-invested. Vencap endeavors to attract other sources of capital from throughout Canada and the United States to participate in our venture investments. Our philosophy: leverage the dollars, leverage the time, leverage the expertise. Vencap's co-investor partners include: Advent International, Kleiner Perkens Caulfield & Byers, Hewlett & Packard, Institutional Venture Partners, Summit Ventures, Sequoia Partners, Burr, Egan, Deleage & Co., Allstate Venture Capital, Hancock Venture Partners, Technology Funding Venture Partners, Metropolitan Life Insurance Co., Montgomery Medical Ventures, Athena Venture Partners, and Columbine Ventures.

The agents of change and growth in any free-enterprise economy have always been the builders of business. In addition to recognizing the potential of investment opportunities, we must also identify the entrepreneurial talents needed to create and build successful businesses.

Vencap's investment strategy does not employ an "either/or" focus. A top-down approach based on macro-economics to determine asset allocation by geography, industry and the companies themselves is one method used. We also recognize opportunities from a micro-economic viewpoint – a focus on specific companies, undervalued but with good earnings potential and the market presence upon which a dominant industry position can be built. Regardless of the focus, one variable remains key to determining further exploration – management.

management

In assessing any investment opportunity, regardless of industry, stage, and potential for return, Vencap gives considerable attention to the management issues involved. Our primary focus is on the entrepreneur and/or management team. Our working relationship with an entrepreneur is of foremost concern.

Venture capital is not exclusively a financial transaction. Our ability to add value depends on the ability to work with an entrepreneur to build a business into a major enterprise. This relationship is the primary security against the risk of our investment; its importance cannot be overstated.

Vencap is not a passive investor. Each staff member develops close working relationships with the companies in our venture capital portfolio.

We work with them to develop marketing plans, alliances, networks. We assist in developing financial management systems and controls. We help companies obtain further sources of capital, both equity and debt. We help to identify and recruit key management people that may be missing from their operations.

Attention to management fundamentals

and risks associated with an investment continues throughout the course of our involvement with a company, particularly when follow on rounds of equity are being considered. Follow on investments totalling $94.6 million comprise 37.2% of the $254.0 million of venture capital Vencap has committed since 1983. Even though the risk profile of follow on situations has the benefit of proven performance and past history with a company's management, a no less disciplined approach than that taken for new, first-time investments exists in assessing and analyzing subsequent rounds of capital. We monitor all investments closely and regularly; we are mindful of the objectives management is to accomplish. In some ways, we impose a more rigid standard on ourselves, recognizing that it is not easy to be objective when we believe in the potential of the companies and people in which we have invested.

The list is long, and always growing, for each company is as distinct in its needs as it is in its business.

Our focus on management and contributing value-added expertise to their efforts extends beyond entrepreneurs to the team of advisors in place to assist in their efforts. Building an effective Board of Directors to assist management is a singular strength at Vencap. In addition to our own professional managers serving on the Boards of companies in which Vencap invests, we seek and find outstanding business professionals throughout North America to provide their expertise and counsel as active directors in these companies.

To ensure we can fully provide this value-added component of our financial partnership, Vencap is focused on investment opportunities whose locations do not prohibit the ongoing association we strive to achieve. In geographic situations beyond immediate accessibility, we seek co-investors – other venture capital funds in the region – to fulfill the role of lead investor and ensure that a value-added partnership can exist. Vencap is comfortable in both roles – that of lead investor in investment opportunities we identify and pursue, and co-investor in opportunities involving other funds where the lead position has been established.

Regardless of our role, key questions and considerations concerning the management aspects of any investment opportunity must still be addressed. These include the technical expertise and business background that a management team brings to an enterprise. As well, senior managements with a meaningful stake in their firm is important to Vencap. Our experience is that management with significant ownership is often more focused

Currently, 70% of our time is dedicated to providing increased assistance to managements of companies in which we are invested. Our attention can take the form of additional equity to ensure they are well capitalized. Our attention, as well, is in the form of time to provide whatever assistance, guidance and expertise they may require to survive and prosper in today's economic reality.

on implementing sound business decisions in the best interests of the company and its shareholders. The willingness to give up some of that ownership to an equity investor is a major factor. We're attracted to entrepreneurs who would rather own 20% of a $50 million company than 90% of a $5 million company. And we're particularly interested in identifying an entrepreneur's motivation toward building a successful company. Mutual understanding must exist and be compatible in order to build a successful company offering a route to liquidity. The ultimate goal is to achieve profit for both Vencap and the entrepreneur.

The strategic and operational plans that drive a company are also a reflection of the management team, as is their ability to react, respond, and anticipate when strategy misses the mark. Vencap's due diligence anticipates the strengths and weaknesses that may exist within company management. Exploring the fundamentals of the business itself and the risk profiles associated with market and financial considerations often identifies management issues needing attention. Conversely, thorough analysis can also lead to evidence supporting Vencap's conclusions that a superb management team already exists.

We subscribe to the belief that superb management consists of industry knowledge, entrepreneurial intuition, and technical management skills. On rare occasions, these abilities are present in one individual. Vencap has often identified superb entrepreneurs who lack expertise in only one aspect of the managerial equation necessary to build a successful company. Our interest in investing in that company is not hampered in the absence of a full management team; we invest in companies where the potential to build a strong management team exists.

The Forzani Group Ltd.

is among the management teams in which Vencap has invested. Since we featured this company in Vencap's previous annual report, The Forzani Group has gone public on The Toronto Stock Exchange and acquired the Sports Experts Inc. chain of 177 stores, including raising more than $40 million in the public markets. The Forzani Group is now the largest sporting goods retailer in Canada and among the five largest in North America. A listing on The Montreal Stock Exchange occurred in mid-April.

Vencap's original investment in 1991 of $3,500,000 enabled the company to acquire the Sport Chek chain of retail operations. In 1992, The Forzani Group acquired the Hogarth chain of sport/leisure stores in B.C.

Vencap continues to hold 875,000 shares in The Forzani Group. Our average cost was $4.00 per share. The Forzani Group went public in August, 1993, at $5.88 per share and is currently trading in the $10.00 per share range. Market value of Vencap's position at March 31, 1994, was $8,968,750.

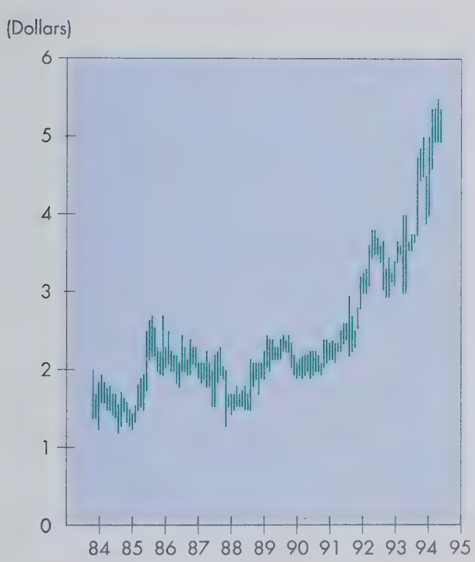
Forzani completed its fiscal year-end on January 31, 1994, reporting revenues of $73.4 million compared to $55.6 million in the previous year. Net income of $2.1 million is an 88% increase over the $1.1 million recorded in 1993. The subsequent acquisition of Sports Experts has resulted in Forzani having pro forma combined revenues in excess of $260 million.

management's discussion and analysis

Share and Debenture Activity

Yearly Price Range	High	Low	March 31/94	March 31/93
Common share price	$5.40	$3.55	$5.00	$3.55
12% convertible debenture	$136 5/8	$120	$130 1/2	$120

Share Price Chart



Vencap's share price rose over the course of the year, peaking just prior to year end at $5.40, then settling back to $5.00 on March 31, 1994. The year-over-year price increase exceeded 40%, as compared to a TSE 300 increase of 20.2% and a financial management sector increase of 70.8% for the same period.

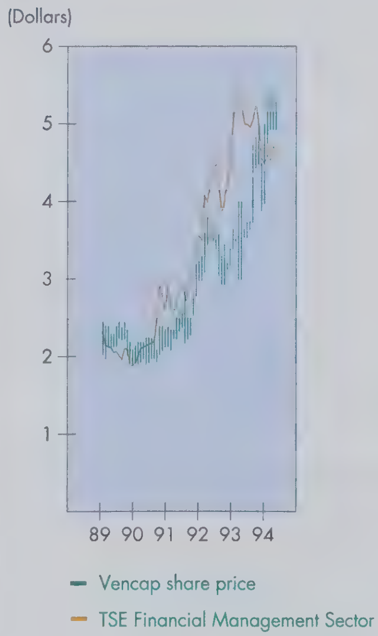
Vencap's shares normally trade in a range based on a discount of fully diluted net asset value per share. Net asset value per share increased from $5.62 at March 31, 1993, to $5.97 at March 31, 1994, an increase of 6.2%. The more dramatic share price increase is, in management's opinion, attributable to a higher than normal discount from net asset value per share last year which depressed the share price at March 31, 1993.

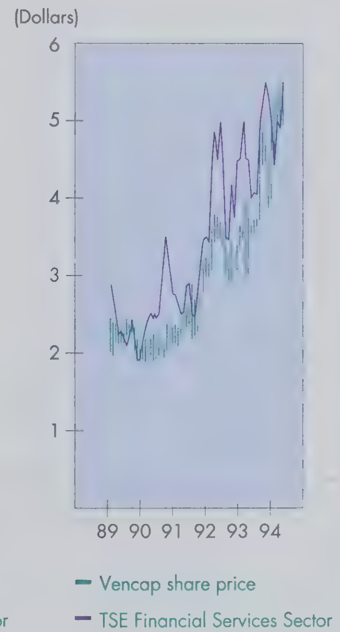
Marketplace

Vencap's source of top quality investment opportunities was impacted by two key factors over the past year - the first was the strong public markets, while the second was the emergence of labour-sponsored venture funds.

As the public stock markets in North America expanded, demand increased for new companies to take public. Many companies which had been considering raising private equity capital instead raised their capital in the public marketplace. These companies, which otherwise would have been quality investment opportunities, were no longer available to private equity investment companies such as Vencap.

The Financial Management Sector of the TSE 300 comprises the five largest financial-management companies in Canada. The Financial Services Sector reflects a broader category and one which contains a greater number of companies, the majority of which, however, are banking institutions.





Return on Investment

(Dollars)	1984*	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Initial outlay October, 1983 (50 common shares and $500 convertible debenture)	$550										
Cash receipts (interest and dividends)	$ 13	$60	$60	$60	$60	$60	$60	$63.50	$64.50	$64.50	$ 66.00
Market value March 31, 1994											$902.50
Rate of return on original investment, compounded annually											**14.8%**

* Partial Year

While labour-sponsored venture funds have existed for a number of years, their numbers increased and their fund-raising activities gained new levels of popularity in 1993 as people looked to take advantage of the tax credits available upon investing in one of these funds. A significant amount of capital entered the private equity capital market, which has a natural tendency to cause valuations to rise. Coupled with less quality investment opportunities being available, more money was chasing fewer deals, putting deal quality and pricing at risk.

The impact is reflected in the number of deals reviewed by the company's investment managers, which fell from 450 last year to 380 this year.

While the demand for new public issues slowed in the first quarter of 1994, the labour-sponsored venture funds continued to raise significant amounts of new capital. The additional equity capital in the marketplace will impact deal flow over the next few years and will have a tendency to cause valuations to remain high. This, in turn, will mean that those funds such as Vencap that have a track record and experience of assessing and managing risk, as well as the financial and mental patience to be disciplined investors, should fare better than the new entrants into the market.

Venture Portfolio

In response to a shrinking Canadian flow of new investment opportunities, Vencap has developed a source of deal flow from the western United States and has pursued promising U.S.-based opportunities with relevance to Alberta. Of the 380 proposals investigated in the fiscal year, 30% originated in the U.S.

Pages 8 and 9 of this annual report have been dedicated to discussing new investments, follow on activity, and divestitures. There was a significant amount of activity within the portfolio during the year. Financing decisions were made and due diligence concluded on 21 of 38 companies which were in the portfolio at the beginning of the year, and seven new companies entered the portfolio during the year. Trader Resources and Taro Industries came into the portfolio as a result of takeovers of companies in which Vencap had been an investor. Of the remaining five new companies in the portfolio in fiscal 1994, four were sourced from our U.S. deal flow, while one was sourced from the 270 Canadian-based deals we reviewed in the year.

The venture portfolio provided $5.5 million of interest and dividends during the year, as compared to $3.7 million last year. The majority of the increase was due to a special dividend paid by one venture investment. The level of interest and dividends from venture investments is expected to decline in the near term as the investee companies utilize their cash for growth opportunities.

Gains, losses and permanent impairments on venture investments will be unique each year, both in terms of the companies involved and in the magnitude and combined levels of the figures. In the fiscal year ended March 31, 1994, large permanent impairments resulted over-all in a loss from all venture exit activities of $12.6 million.

Venture Exit Activity	1994	1993
Gains (losses) on disposition	$ 3,977	$ 8,894
Permanent impairment of value	(16,627)	(9,003)
	$(12,650)	**$ (109)**
(Thousands)		

The $6.8 million permanent impairment of Banff Rocky Mountain Resort (formerly Relax Development Corporation Ltd.) reflects the decline in hotel real estate values since the initial investment was made in 1986. The $6.7 million impairment

of CRS Restaurants Inc. reflects our failed efforts to recover value from the WesterN SizzliN restaurant Canadian master franchise.

	Investment	Proceeds on Disposition
Permanent impairments		
Full investment	$9,827	$ –
Partial investment	$6,800	$ –
Gains (losses) on disposition	$7,640	$11,617
(Thousands)		

The Allowance for net unrealized gains (losses) on venture investments declined by $4.5 million during the year. Management realizes that investors' value (share price) is driven by net asset value per share and, accordingly, reflects potential losses by taking an allowance against retained earnings in advance of the possibility of these losses being realized. When they are realized through permanent impairments, such as is the case this year, the write-off is recorded against income but the allowance against that investment is no longer needed and is reversed.

There are now nine publicly listed companies in Vencap's venture portfolio (pages 6 to 8). Taro Industries and Trader Resources came into the portfolio through the takeovers of ALPECO Limited and Mountain Minerals respectively. SangStat Medical Corporation, listed on NASDAQ, and The Forzani Group, listed on The Toronto Stock Exchange, completed their initial public offerings of shares to the public during the year. Both stocks have performed well since going public.

We continue to be bound by confidentiality concerning information regarding our privately held venture investments. We are pleased with the progress made over the past year amongst these companies, involving acquisitions, expansions, new product introductions, research breakthroughs, new plant start ups, additional financings, and additions to management teams. During the year, Vencap issues newsletters to interested parties which highlight the progress of certain of the venture investments. These newsletters provide an additional insight into the exciting activities within the portfolio.

Marketable Securities

The marketable securities portfolio, through interest, dividends and gains on disposition, produced $18.7 million of income, as compared to $16.6 million in the prior year.

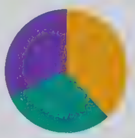
Revenues from marketable securities increased by 12.6% during the year, even though the balance of the securities portfolio declined by 2.1% during the same period. During fiscal 1994, the securities portfolio had an over-all average return of 10.8%.

The portfolio was well positioned at the beginning of the year so that, as rates moved down, securities were sold, and replaced, first by floating rate securities which provided additional protection, and then to a mix of very high quality credits in anticipation of an uncertain environment in which capital preservation may be as important as earning a high rate of return. Our principal objective continues to be to maximize cash flow from this portfolio.

Net Income

Operating expenses increased during the year by 3.3%, due mainly to costs associated with engaging professional advisors on various matters pertaining to activities in the venture investment portfolio.

Since 1983, Vencap has generated a return to its stakeholders of $165.0 million.



- $63.4 million interest paid on loan from Province of Alberta
- $49.3 million dividends and debenture interest paid to shareholders and debenture holders
- $52.3 million equity earned and accrued on shareholders' behalf

Fully Diluted
Net Asset Value
Per Share
$5.97

Share Price
$5.00

Share Price as
% of Fully Diluted
Net Asset Value
83.8%

Debenture interest and the premium paid purchasing debentures under the Normal Course Issuer Bid declined in the year, and will decline sharply in the next fiscal year upon the redemption of the debentures. Provincial interest, which is calculated as a percentage of income, declined in conjunction with the lower level of income, net of permanent impairments, from venture investments.

Included in operating expenses for 1993 and 1994 is interest expense associated with Revenue Canada reassessments. The reassessments assume dispositions of venture investments are business income for income tax purposes, rather than capital transactions as filed by the company. That portion of the interest related to earlier years has been treated as a prior period adjustment charged directly to retained earnings. Management believes that strong arguments exist for its filing position that venture investments should be eligible for capital gains treatment, and is currently developing a strategy with regards to the reassessment which is intended to provide the company with the most advantageous tax positioning available.

Shareholders' Equity

Vencap's share price has historically traded as a percentage of fully diluted net asset value per share. A review of our financial statements will indicate the conservative accounting policies utilized in the calculation of that figure - first, it is fully diluted, reflecting all possible shares that could be issued under the existing capital structure; second, it incorporates an allowance against those venture investments where the Board of Directors determines there may be some risk of not recovering a portion of the investment; and third, it reflects a carrying value for the venture investments which only allows a write-up of value in very limited circumstances, meaning that a large number of the investments are carried at their cost. Fully diluted net asset value per share at March 31, 1994, was $5.97, an increase of 6.2% over the figure of $5.62 at March 31, 1993.

A large portion of the increase in net asset value per share is a result of lowering the Allowance against the portfolio which, in turn, is a result of determining that certain investments were permanently impaired, as reflected in the charge against income in the year. The Allowance had been recorded in prior years, again ensuring that net asset value per share is a reliable, conservative measure of share value.

Purchases of 12% convertible debentures and common shares under Normal Course Issuer Bids also increased fully diluted net asset value per share. During fiscal 1994, the company purchased 267,200 of its shares and $506,000 of its debentures (equivalent to 126,500 common shares) at an average price of $4.64 per share. Given that the purchases were completed at a cost lower than net book value, they enhance incrementally the value of the remaining shares.

At March 31, 1994, the fully diluted net asset value per share reflects two potential dilutions - 8,086,000 common shares potentially issuable on conversion of the 12% convertible debentures, and 4,000,000 common share options held by The Province of Alberta.

	Common Shares	12% Convertible Debenture	Total
Purchased and cancelled	$1,184,000	$642,000	$1,826,000
Common shares (or equivalent)	267,200	126,500	393,700
Average price per common share (or equivalent)	$4.43	$5.08	$4.64

Subsequent to the year end, Vencap called for redemption of the 12% convertible debentures as at June 30, 1994. We anticipate that the majority of the debentures will convert into common shares, increasing the share float and adding substantially to our equity base. Any debentures which are redeemed for cash will enhance the fully diluted net asset value for the remaining shares. The decision to redeem the debentures will reduce expenses; the approximately $4 million expense associated with the 12% interest paid on debentures will no longer be an expense in Vencap's Income Statement. The resulting improvement in bottom-line performance will enhance the operating contribution to retained earnings each year, thereby increasing net asset value per share.

The options held by The Province of Alberta stem from the original loan from the Heritage Trust Fund. The future status of Vencap's relationship with The Government of Alberta has been the subject of considerable public discussion. Vencap's loan agreement with the province is based on a repayment schedule of principal payments of $15 million starting in 2003 and continuing to 2012; the balance of the loan to be paid in 2013. It has been suggested that Vencap consider an early repayment of the loan, which could necessitate also dealing with the options. We are currently conducting a thorough examination of the risks and consequences associated with early repayment.

These transactions will help to clarify Vencap's capital structure, and allow the company to plan for its future financing needs. In the interim, the value underlying Vencap's shares remains intact, while the share price, as expected, has adjusted according to market supply and demand pressures.

Reporting Matters

Vencap endeavours to provide full disclosure within a framework of accounting policies and financial statement disclosure rules established by the recommendations of the Canadian Institute of Chartered Accountants. Management actively participates in the debate leading to the development of any policy which may have an impact on our ability to provide our shareholders with relevant, meaningful information.

In our 1993 Annual Report, we stated that we were investigating U.S. accounting practices for the venture capital industry to determine whether disclosure practices existed which would provide more meaningful information to our shareholders. Our review failed to find any alternative which provided a significant amount of additional information and complied with generally accepted accounting principles in Canada.

Vencap's common shares are traded through the facilities of The Alberta Stock Exchange. We make every effort to ensure that we are in compliance with the rules and regulations of the applicable exchange and securities commission, and will continue to adopt new requirements as they are issued.

Initial capitalization	$244.0
Cumulative venture investments excluding commitments	(242.2)
Cash from venture dispositions & return of capital	100.7
Cash from dividends & interest on venture investments	28.6
Cash from dividends & interest on marketable securities (net)	40.6
Marketable securities at March 31, 1994	**$ 171.7**

(Millions)

Management's reporting responsibility

The accompanying financial statements of Vencap Equities Alberta Ltd. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a comprehensive system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the corporation's annual financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the Audit Committee, with and without management being present.

The financial statements have been examined by the shareholders' auditors, Price Waterhouse, Chartered Accountants, and their report is presented below.

R.A. (Sandy) Slator
President
Chief Executive Officer

Ian T. Morris
Senior Vice President
Chief Financial Officer

Auditors' report

To the Shareholders of Vencap Equities Alberta Ltd.

We have audited the balance sheet of Vencap Equities Alberta Ltd. as at March 31,1994 and the statements of income, changes in financial position and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31,1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Edmonton, Alberta
April 29, 1994

Assets

Marketable securities are the funds available for Vencap to invest in venture capital opportunities. These funds are invested in bonds, term deposits and preferred shares with minimal risk exposure. The major risk is in the venture portfolio. This amount reflects the cost to Vencap adjusted for certain potential unrealized gains, losses, and accumulated permanent impairments, as described in Note 1. The venture investment portfolio is detailed on pages 6 and 7 of this Annual Report.

balance sheet

Thousands

	March 31 1994	1993
Assets		
Current assets		
Cash	$ 4,703	$ 145
Accounts receivable (Note 2)	2,064	3,159
Marketable securities maturing within one year (Note 3)	45,115	30,578
	51,882	33,882
Marketable securities maturing after one year (Note 3)	126,633	144,857
Venture investments (Note 4)	114,388	113,486
Other assets (Note 5)	1,127	1,004
	$ 294,030	$ 293,229
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 2,338	$ 802
Accrued interest payable	2,765	6,987
	5,103	7,789
Long-term debt		
Convertible debentures (Notes 6 and 13)	32,344	32,862
Province of Alberta loan (Note 7)	199,990	199,991
	232,334	232,853
Shareholders' equity	56,593	52,587
	$ 294,030	$ 293,229
Net asset value per common share (Note 10)		
Basic	$ 16.21	$ 14.25
Fully diluted	$ 5.97	$ 5.62

Approved on Behalf of the Board

Director

Director

Liabilities and shareholders' equity

The company has minimal current liabilities. Long-term debt relates to the original public offering. The 12% convertible debentures, issued as part of the original common share and convertible debenture units, are being redeemed as at June 30, 1994. The Province of Alberta loan is reduced by $1,000 each year until 2002, after which payments of $15,000,000 commence. Interest on this loan is paid annually, calculated as approximately 50% of pre-tax income. Shareholders' equity represents the net asset value accumulating on behalf of the shareholders. The company began in 1983 with $4,000,000 of share capital. Equity at year-end of $56,593,000 is an accumulation of earnings adjusted for other capital distributions, including dividends.

This statement reflects income and expenses for the year. Income is derived from two sources – the venture portfolio and marketable securities.

A sale of a venture investment results either in a gain or loss. Certain ventures pay interest or dividend income. Since 1983, Vencap has earned $28.6 million in interest and dividend income from the companies in its venture portfolio. A permanent impairment is recorded to reflect an irreversible loss in the value of a venture investment without the actual sale of the investment.

statement of income

Thousands

	Year Ended March 31 1994	1993
Venture investments		
Interest and dividend income	$ 5,471	$ 3,709
Gains on disposition	3,977	8,894
Permanent impairment of value	(16,627)	(9,003)
Marketable securities		
Interest and dividend income	11,259	14,227
Gains on disposition	7,440	2,346
	11,520	20,173
Expenses		
Interest on Province of Alberta loan	1,020	5,263
Debenture interest and premium	4,047	4,384
Operating	5,433	5,262
	10,500	14,909
Income before income taxes	1,020	5,264
Provision for income taxes (Note 9)	229	182
Net income	$ 791	$ 5,082
Earnings per common share (Note 10)		
Basic	$ 0.22	$ 1.37
Fully diluted	$ 0.19	$ 0.46

Income from marketable securities is principally interest or dividends, although a gain or loss may occur if a security is sold before its maturity. Expenses represent the cost to Vencap of doing business and include the amount that Vencap will pay as interest on its loan from the Province of Alberta. Since 1983, Vencap has paid $63.4 million in interest to the province.

Net income is added to retained earnings within the "Statement of Changes in Shareholders' Equity".

While the "Balance Sheet" shows the company's financial position at year-end and the "Statement of Income" shows the net of revenues less expenses, the "Statement of Changes in Financial Position" illustrates how the financial resources of the company were generated and used, and the closing cash position of the company. Cash provided by (used for) **operations** reflects net income, adjusted for changes that did not involve the outlay of operating funds.

statement of changes in financial position

| Thousands |

	Year Ended March 31 1994	1993
Cash provided by (used for)		
Operations		
Net income	$ 791	$ 5,082
Depreciation	110	166
Premium on purchase of debentures	136	392
Venture investments -		
Gains on disposition	(3,977)	(8,894)
Permanent impairment of value	16,627	9,003
Marketable securities -		
Gains on disposition	(7,440)	(2,346)
	6,247	3,403
Net changes in working capital balances -		
Accounts receivable	1,095	1,129
Accrued interest payable	(4,222)	(80)
Other	1,303	(226)
	4,423	4,226
Financing		
Purchase and cancellation of common shares	(1,185)	(1,173)
Issuance of Class B preferred shares, net	323	349
Purchase and cancellation of debentures	(642)	(2,020)
Dividends	(435)	(339)
Province of Alberta loan	(1)	(1)
	(1,940)	(3,184)
Investments		
Venture investments, net of return of capital	(20,669)	(22,785)
Proceeds on disposition of venture investments	11,617	17,020
Marketable securities	11,127	4,602
	2,075	(1,163)
Increase (decrease) in cash	4,558	(121)
Cash, beginning of year	145	266
Cash, end of year	$ 4,703	$ 145

Cash provided by (used for) **financing** relates specifically to changes in Vencap's financial structure of common shares, convertible debentures, and the Province of Alberta loan. These items include events such as the purchase and cancellation of both common shares and debentures.

Cash provided by (used for) **investments** reflects the cash inflows and outflows relating to both venture transactions and marketable securities.

This statement records changes in shareholders' equity over a two-year period.

statement of changes in shareholders' equity

Thousands

The inclusion of net income within shareholders' equity illustrates that earnings accumulated over time accrue to the shareholders.

The amount of allowance provided is of particular interest in that it represents the risk that Vencap believes to be associated with its venture investment portfolio at March 31, 1994.

Share account balances comprise the capital originally committed by the shareholders, as well as any transactions between Vencap and its shareholders.

	Class B Preferred Shares	Common Shares	Retained Earnings	Allowance For Net Unrealized Gains (Losses) On Venture Investments	Total
Balance, March 31, 1992					
As previously reported	$170	$4,040	$53,554	$(7,000)	$50,764
Prior period adjustment (Note 12)					
Interest on income tax reassessment	–	–	(1,195)	–	(1,195)
Province of Alberta interest adjustment	–	–	598	–	598
	–	–	(597)	–	(597)
As restated	170	4,040	52,957	(7,000)	50,167
Net income for the year (Note 12)	–	–	5,082	–	5,082
Dividends ($0.09 per common share)	–	–	(339)	–	(339)
Increase in allowance for net unrealized gains (losses) on venture investments	–	–	–	(1,500)	(1,500)
Share transactions (Note 8)	320	(321)	(822)	–	(823)
Balance, March 31, 1993	490	3,719	56,878	(8,500)	52,587
Net income for the year (Note 12)	–	–	791	–	791
Dividends ($0.12 per common share)	–	–	(435)	–	(435)
Decrease in allowance for net unrealized gains (losses) on venture investments	–	–	–	4,500	4,500
Share transactions (Note 8)	251	(205)	(896)	–	(850)
Balance, March 31, 1994	$741	$3,514	$56,338	$(4,000)	$56,593

notes to financial statements

| March 31, 1994 |

| 1 | Summary of significant accounting policies

Marketable securities

Marketable securities maturing within one year, consisting of bonds and preferred shares with predetermined maturities, are recorded at cost.

Marketable securities maturing after one year are recorded at cost unless there has been a permanent impairment in value. A loss associated with a permanent impairment would be reflected in the statement of income.

Marketable securities denominated in foreign currencies are translated at rates in effect at the balance sheet date. Unrealized foreign currency gains and losses on long-term marketable securities are recorded as a deferred liability and amortized over the remaining term to maturity of the related security.

Venture investments

Venture investments having quoted market values and which are publicly traded on a recognized exchange are recorded at values based on the quoted market prices at the balance sheet date.

Venture investments not having quoted market values are recorded at directors' estimates of fair value. Fair value is defined as the expected realization if venture investments were disposed of in an orderly distribution over a reasonable period of time.

Realized gains or losses on disposition of venture investments, together with losses incurred when the value of investments has been permanently impaired, are recorded in the statement of income. Unrealized gains or losses in the value of investments, net of applicable interest on the Province of Alberta loan and income taxes, are reflected as a separate element in the statement of changes in shareholders' equity.

The valuation procedure includes preparation by management, on a quarterly basis, of a written summary of the status of each venture investment. The Audit Committee reviews each investment to determine its carrying value, and the Board of Directors approves the final valuation. The valuation process includes inherent uncertainties and the values determined might differ from values that would have been obtained had a ready market existed for disposing of the investments.

Venture investing activities include a clearly demonstrated intention to dispose of these investments in due course. Events occurring during the holding period of a particular venture investment may result in the company having the right to elect a majority of an investee's Board of Directors. However, because such control may be waived or rectified and is not intended to continue, a parent-subsidiary relationship does not exist. Accordingly, the accounts of investee companies in which the company holds greater than 50% of the voting rights are not consolidated with those of the company.

2 Accounts receivable (Thousands)

	1994	1993
Interest and dividends receivable	$ 1,721	$ 2,975
Other	343	184
	$ 2,064	$ 3,159

3 Marketable securities (Thousands)

Maturing within one year	1994		1993	
	Cost	Market Value	Cost	Market Value
Government bonds	$ –	$ –	$ 5,084	$ 5,165
Term deposits	45,115	45,115	25,494	25,494
	$ 45,115	$ 45,115	$ 30,578	$ 30,659

Maturing after one year	19941993			
	Cost	Market Value	Cost	Market Value
Government bonds	$ 56,530	$ 56,740	$ 60,659	$ 63,305
Preferred shares	70,103	70,628	84,198	87,423
	$ 126,633	$ 127,368	$ 144,857	$ 150,728

4 Venture investments (Thousands)

Venture investments are held in the following instruments	1994	1993
Preferred shares	$ 56,306	$ 47,977
Common shares	55,101	56,577
Loans	6,981	17,432
	118,388	121,986
Allowance for net unrealized gains (losses)	(4,000)	(8,500)
	$ 114,388	$ 113,486

The majority of the preferred shares include rights to convert to common shares.

During the year, venture investments increased as follows	1994	1993
Balance, beginning of year	$ 113,486	$ 109,330
New investments	22,107	24,252
Return of capital	(1,438)	(1,467)
Dispositions, at cost	(7,640)	(8,126)
Permanent impairment of value	(16,627)	(9,003)
	(3,598)	5,656
Decrease (increase) in		
Allowance for net unrealized gains (losses)	4,500	(1,500)
	902	4,156
Balance, end of year	$ 114,388	$ 113,486

5 | Other assets (Thousands)

	1994	1993
Fixed assets, at cost less accumulated depreciation	$ 178	$ 258
Employee share purchase loans	949	746
	$ 1,127	$ 1,004

The share purchase loans are provided interest-free to employees in connection with their purchase of Class B preferred shares. The loans are secured by demand promissory notes and the related shares, and are repayable at the earliest of demand by the company, 10 years from the date of issue, sale of common shares received upon conversion, or termination of employment. The loans are reduced by 75% of any dividends paid during the year and by any other repayments.

6 | Convertible debentures (Thousands)

	1994	1993
Balance, beginning of year	$ 32,862	$ 34,491
Conversion into common shares	(12)	(1)
Purchased and cancelled under Normal Course Issuer Bids	(506)	(1,628)
Balance, end of year	$ 32,344	$ 32,862

The convertible debentures, due July 2, 1998, bear interest at 12% per annum payable semi-annually on the second day of January and July in each year. The debentures are convertible until maturity at the option of the holders into common shares at a conversion price of $4.00 per common share. If all debentures outstanding were converted at March 31, 1994, 8,086,000 common shares would be issued.

The company has the right to redeem its debentures if the weighted average price at which the company's common shares trade on the Alberta Stock Exchange during a period of twenty consecutive trading days equals at least $5.20 (Note 13).

During the year, debentures were purchased for cancellation under the terms of Normal Course Issuer Bids dated November 9, 1992 and November 15, 1993. The premium of $136,000 (1993 - $392,000) on purchase of the debentures has been expensed.

7 | Province of Alberta loan

The Province of Alberta loan is to be repaid in instalments of $1,000 each year through to 2002 and $15,000,000 in each of the years 2003 to 2012 inclusive, with the balance due in 2013.

Interest on the loan is calculated as a varying percentage of the company's net income for each year. Under the terms of the loan agreement, "net income" is defined as net income determined in accordance with generally accepted accounting principles but before deduction of income taxes, interest on the Province of Alberta loan, and interest on any debt subordinated to the provincial loan. Prior period adjustments are taken into account in calculating interest payable to the Province. The percentage of net income payable as interest varies according to a formula based on the amount and

type of debt and equity capitalization of the company. The loan may be prepaid with the consent of the Province. Interest continues to be payable for twenty years following repayment in full of the principal amount, at the rate of 10% of net income, as defined above.

The loan is secured by a debenture, which provides for a fixed charge in favour of the Province on securities owned and to be owned by the company, having an aggregate carrying value from time to time of $175,000,000. The debenture also provides for a floating charge on all the company's assets and an assignment of its receivables. Securities owned by the company will be held by a Canadian chartered bank as depository. The company, subject to its obligation to maintain securities on deposit with the depository in the aggregate value described above, may freely deal with these securities in the ordinary course of business.

The Province of Alberta has an option to purchase up to 4,000,000 Special Shares at a price of $1.00 per share. Any number of Special Shares, if issued, would have 20% of the total number of votes attaching to all shares eligible to vote at meetings of the shareholders.

8 Share capital

Authorized

Unlimited number of Class A preferred shares

Unlimited number of Class B preferred shares

Unlimited number of Special Shares

Unlimited number of common shares

Issued	**Class B Preferred Shares**		**Common Shares**	
	Number of Shares	Amount (Thousands)	Number of Shares	Amount (Thousands)
Balance at March 31, 1992	**11,300**	**$170**	**3,774,165**	**$4,040**
Issuance of Class B shares	14,000	369	–	–
Redemption of Class B shares	(1,000)	(20)	–	–
Cancellation under Issuer Bid	–	–	(327,550)	(351)
Conversion of Class B shares	(1,900)	(29)	19,000	29
Conversion of debentures	–	–	250	1
	11,100	320	(308,300)	(321)
Balance at March 31, 1993	**22,400**	**490**	**3,465,865**	**3,719**
Issuance of Class B shares	8,000	362	–	–
Redemption of Class B shares	(1,500)	(39)	–	–
Cancellation under Issuer Bid	–	–	(267,200)	(289)
Conversion of Class B shares	(3,300)	(72)	33,000	72
Conversion of debentures	–	–	2,875	12
	3,200	251	(231,325)	(205)
Balance at March 31, 1994	**25,600**	**$741**	**3,234,540**	**$3,514**

The company has designated 50,000 non-voting Class B preferred shares - Series 1 for purchase by employees. Each share can be converted into 10 common shares and is entitled to receive dividends equal to ten times the amount of cash dividends declared on each common share.

Under the terms of Normal Course Issuer Bids dated November 9, 1992, and November 15, 1993, the company purchased its common shares. The excess of the purchase price over carrying value, in the amount of $896,000 (1993 - $822,000), was charged to retained earnings.

9 | Income taxes (Thousands)

The provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rate to income before income taxes. The differences are as follows:

	1994	1993
Income before income taxes	$ 1,020	$ 5,264
Combined federal and provincial income tax rate	44.34%	44.34%
Computed provision for income taxes	$ 452	$ 2,334
Increase (decrease) in income taxes resulting from -		
Non-taxable dividend income	(3,730)	(4,166)
Current non-capital losses not recognized for accounting purposes	800	3,128
Items credited to operations taxed at other than full rates	(487)	(1,517)
Loss previously recognized for tax charged to current operations	3,015	–
Tax on large corporations	179	181
Other	–	222
Provision for income taxes	$ 229	$ 182

The company has non-capital losses of approximately $14,000,000 available to offset future taxable income, which expire in the years 1999 through 2001. In addition, the company has allowable capital losses of approximately $4,400,000 which may be carried forward indefinitely to reduce future taxable capital gains. The potential benefit of these losses has not been recognized in the financial statements.

10 | Earnings and net asset value per common share

The calculation of basic earnings per share is based on the weighted average number of common and Class B preferred shares outstanding during the year.

Fully diluted earnings per share reflects the dilutive impact of the conversion of the convertible debentures (Note 6) and the exercise of the Province of Alberta Special Share option (Note 7), as if such events had occurred at the beginning of the year.

Basic net asset value per share is calculated based on the number of common and Class B preferred shares outstanding at the end of the year. The calculation of fully diluted net asset value per share reflects the dilutive effect of the conversion of the convertible debentures and exercise of the Province of Alberta Special Share option.

11 Contingencies and commitments

Amounts totalling $715,000 remain in escrow from prior years' dispositions of venture investments. Future amounts received by the company, net of related costs, will be included in income when the escrow conditions are satisfied.

The company is a defendant in a number of legal actions. Management is of the opinion that there will be no material liabilities arising from these actions.

The company is committed for rental of office space in the amount of approximately $112,000 for each of the next four years.

12 Prior period adjustment

During the year, the company was reassessed by Revenue Canada for the taxation years 1989 through 1992. The reassessments assume dispositions of venture investments are business income for income tax purposes, rather than capital transactions as filed by the company. No income taxes are payable as the company elected to carry available losses back to offset taxable income arising from the reassessments. The company has been assessed interest in respect of the income taxes which were owing prior to application of the losses. The company intends to appeal these reassessments.

As a result of this assessment of interest, retained earnings at April 1, 1992, has been adjusted by $1,195,000, the amount related to 1989 through 1992, net of participation by the Province of Alberta of $598,000. Accrued interest payable was increased by the net amount of $597,000.

The effect of the assessment on the year ended March 31, 1994 resulted in a decrease in net income of $60,000 (1993 - $83,000), net of related provincial participation of $60,000 (1993 -$83,000).

13 Subsequent event

On April 18, 1994, the company announced its intention to redeem all outstanding 12% convertible debentures effective June 30, 1994.

The debentures continue to be convertible into common shares until June 29, 1994, at the option of the holder, at a conversion price of $4.00 per share, plus accrued interest up to the date of conversion. If all debentures outstanding at March 31, 1994 are converted, 8,086,000 common shares will be issued, resulting in total shares outstanding of 11,320,540, and increasing shareholders' equity in the amount of $32,344,000.

Fully diluted earnings per share and fully diluted net asset value per share reflect the impact of a complete conversion of the debentures.

1980, 10180-101 Street, Edmonton, Alberta T5J 3S4
Telephone: (403) 420-1171 Facsimile: (403) 429-2451

2000, 800 - 5 Avenue SW, Calgary, Alberta T2P 3T6
Telephone: (403) 237-8101 Facsimile: (403) 264-0324

vencap directory

R. A. (Sandy) Slator
President
Chief Executive Officer

Ian T. Morris
Senior Vice President
Chief Financial Officer
Secretary

Oleh S. Hnatiuk *
Senior Vice President,
Investments

F. W. (Woody) Kuehn *
Vice President

David E. Stitt
Vice President

Mark T. Broussard
Investment Manager

Dr. Bill Cochrane *
Medical Technologies
Consultant

Janet G. Goodwin
Manager,
Investor Relations

Lane Kranenburg *
Investment Manager

W. R. (Bill) McKenzie
Investment Manager

Marjorie M. Ratzlaff
Assistant Controller

Thomas K. Rice
Investment Manager

Judith K. Smith
Executive Assistant
to the President

M. Christine Stacey
Controller

Frank L. Stack *
Investment Manager

* located in Calgary office

Auditors

Price Waterhouse
Chartered Accountants

Bankers

Royal Bank of Canada

Vencap Equities Alberta Ltd. is incorporated under the laws of The Province of Alberta. Common shares of the corporation are listed on The Alberta Stock Exchange, symbol VCE.

Fiscal year-end: March 31.
Interim results: June 30, Sept. 30, Dec. 31.

This document is printed on 50% recycled paper which contains a minimum of 25% post consumer content.

Board of Directors

John E. Barry
President
JEB Investments Ltd.

Don Carlson
Chairman of the Board
Vencap Equities Alberta Ltd.

Dr. Robert B. (Bob) Church
Professor Emeritus,
Department of Medical
Biochemistry, Faculty of
Medicine, University of
Calgary

Robert J. Elliott
President
Zeidler Forest Industries Ltd.

J. Gregory Greenough
President
Maclab Enterprises

J.R. (Bud) McCaig
Chairman
Trimac Limited

J.H. (Jack) Nodwell
Chairman and
Chief Executive Officer
Foremost Industries Inc.

R.A. (Sandy) Slator
President
Chief Executive Officer
Vencap Equities Alberta Ltd.

Dr. John D. Wood *
President and
Chief Executive Officer
Canadian Utilities Limited

John B. Zaozirny, Q.C.
Counsel
McCarthy Tétrault
Barristers and Solicitors

* Not standing for re-election

Committees

Executive:

Don Carlson, Chairman
J. Gregory Greenough
J.H. (Jack) Nodwell
R.A. (Sandy) Slator
John B. Zaozirny, Q.C.

Audit:

Robert J. Elliott, Chairman
John E. Barry
Dr. Robert B. (Bob) Church

Human Resources & Compensation:

Dr. John D. Wood, Chairman
J. Gregory Greenough
J.R. (Bud) McCaig

Shareholders with changes of address or seeking information or assistance concerning their holdings should contact Vencap's Registrar and Transfer Agent:
The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone: 1-800-387-0825

Investor Information

Shareholders and other interested people seeking assistance or information about Vencap are invited to contact Ian T. Morris, Senior Vice President and Chief Financial Officer, or Janet G. Goodwin, Manager, Investor Relations, at
1980, 10180 - 101 Street,
Edmonton, Alberta
T5J 3S4
Telephone: (403) 420-1171
Facsimile: (403) 429-2451

Design: Smith & Associates Printing: Sundog Printing Limited

vencap

Vencap Equities Alberta Ltd.
1980, 10180 - 101 Street
Edmonton, Alberta T5J 3S4
Telephone: 403-420-1171
Facsimile: 403-429-2451

Printed in Canada